

ADMINISTRATION, AUDIT, AND ENFORCEMENT

During the 1998-99 reporting period, the Charitable Gaming Division initiated and/or resolved 85 separate administrative actions involving gaming licenses. Below is a summary of the Division's Administrative Actions:

Administrative Orders Issued:

| | | |
|-----------------------------|----|------------------------------|
| License Denial | 16 | |
| License Suspension | 10 | |
| Administrative fines* | 44 | (Amount collected: \$24,337) |
| License Revocation | 2 | |
| Other | 9 | |

Administrative Actions Initiated and Pending:

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|---------------------------|---|
| License Denial | 3 |
| License Suspension | 1 |
| Administrative Fine | 2 |
| Tax Assessment | 1 |

Administrative Orders Appealed and Resolved in Higher Court:

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|------------------------------|---|
| District Court | 1 |
| Nebraska Supreme Court | 1 |

Lawsuits Pending in Higher Court:

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|----------------------|---|
| District Court | 1 |
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*Monies collected from the fines assessed are deposited by the State Treasurer into the Permanent School Fund for the support and maintenance of schools in Nebraska.

Temporary licenses were granted by the State Tax Commissioner to applicants where the Department sought to deny a license application in order to allow the parties to participate in gaming activities during the pendency of any administrative or court proceedings. As of the close of the annual reporting period, the following temporary licenses had been granted:

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| Class II Bingo | 1 |
| Class II Lottery by the Sale of Pickle Cards | 1 |
| Utilization of Funds Member | 1 |
| Sales Agent | 1 |
| Gaming Manager | 1 |

The Policy/Licensing Section of the Charitable Gaming Division is responsible for the licensing of individuals, businesses, counties, cities, and villages, and nonprofit organizations which conduct charitable gaming activities in Nebraska. It is also responsible for implementing legislation enacted by the Nebraska Legislature relative to charitable gaming activities, identifying needed legislative changes in the charitable gaming areas which it regulates, recommending and drafting proposed legislation relative to charitable gaming, promulgating administrative regulations and revenue rulings to clarify and supplement statutory provisions, developing and publishing information guides and a biannual newsletter for gaming licensees, and the rendering of day to day opinions and interpretations of the charitable gaming laws.

During the legislative session held within this reporting period, the Nebraska Legislature did not adopt any changes to Nebraska's charitable gaming laws. However, one statutory change adopted during a previous legislative session became effective during the reporting period. On January 1, 1999, the local tax on bingo receipts was eliminated in its entirety. There were a number of legislative bills introduced during the First Session of the Ninety-Sixth Legislature which are still pending as of the date of this publication including legalization of electronic pickle cards, and modifications to the game of keno. All of these legislative proposals are primarily efforts to address declining revenues in charitable gaming activities.

During this reporting period the State Tax Commissioner authorized the formation of a study group consisting of representatives of nonprofit organizations, manufacturers, and distributors to develop and recommend changes to the regulation and use of coin and currency-operating pickle card dispensing devices in Nebraska. The study group met on two different occasions without reaching a consensus on solutions to some of the regulatory problems which exist today. Of primary regulatory concern is the determination of fair market value as it relates to the sale, lease, or rental of pickle card dispensing devices to a pickle card operator by a nonprofit organization. We anticipate drafting revisions to the existing regulations on pickle card dispensing devices in the near future to address this concern and other regulatory issues.

Revised bingo regulations have been drafted and are being prepared for public hearing during the year 2000. A revenue ruling was drafted to establish minimum regulatory requirements for the use and operation of an automated ball draw system for winning number selection in keno. An automated ball draw system reads an optical code on the keno ball representing the number of the ball selected and electronically transmits the ball number read to the computerized keno system in lieu of keno personnel having to manually enter each number selected into the system. The revenue ruling will allow keno operations using an automated ball draw system to reduce the number of staff required to operate the game.

Considerable time and effort were spent during this reporting period to prepare for the new millennium. This included converting and redesigning the Division's licensing databases. In conjunction with this conversion, many enhancements were made to the database to make it more user friendly and to eliminate data redundancies. These enhancements have enabled our licensing staff and administrative support staff to improve our operation efficiency in the processing of license applications. In addition, a computer-generated license renewal application was developed for county/city lottery licensees. The other major undertaking to prepare for the millennium change involved coordinating and overseeing the testing of all computerized keno systems in use in Nebraska to insure the systems were Y2K compliant.

The Policy/Licensing Section has also been working with the Department's Special Services Division in the further development of the Charitable Gaming Division's portion of the Department's web page. Additional enhancements are anticipated in the future.

The Audit Section has responsibility for the enforcement and compliance review of licensed organizations conducting bingo, pickle card, lottery/raffle and county/city lottery activity. They are also responsible for the review of certain financial aspects of the computerized keno systems that are approved by the Department for use in county/city lottery operations.

In addition to routine and requested field audits, the Audit Section conducted monthly reviews of the pickle card tax returns submitted by licensed distributors; monthly reviews of the pickle card activity of organizations with significant cash shortages; reviews of bingo paper usage reflected on quarterly reports filed by Class II bingo licensees; quarterly reviews of the tax returns submitted by organizations conducting bingo and lottery/raffle and counties, cities and villages conducting keno; annual reviews of the gaming activity reports for counties, cities, and villages conducting keno and all nonprofit organizations which were involved in charitable gaming activity. The Audit Section activity break down is as follows:

- 666 Pickle card annual reports reviewed
- 226 Bingo annual reports reviewed
- 198 Lottery/raffle annual reports reviewed
- 137 County/city lottery annual reports reviewed
- 29 Annual report nonfilers identified and referred to Investigation Division
- 28 Annual report shortages identified and referred to Investigation Division
- 8 Other annual report violations identified and referred to Investigation Division
- 29 Other annual report violations identified and referred to Policy Section and Legal Division
- 6 Field audits of bingo operations
- 29 Field audits of pickle card operations
- 17 Field audits of keno (county/city lottery) operations
- 1 Field audit of lottery/raffle
- 238 Letters written to licensees in an attempt to explain the problems with the annual reports, how a nonprofit can use the annual reports to audit themselves.
- 16 Field audit visits to explain the problems on the annual reports, take inventory, reconcile what the organization deposited into the pickle card account to the calculated amount of the funds generated from the sale of pickle cards. Memorandums, with audit findings and work papers, were prepared where there were violations of gaming laws and provided to the Legal and Investigation Divisions for further action.
- 19 Tracking of monthly reconciliations of pickle card funds for organizations reporting a shortage of funds accounted for.
- 7 Organizations remitting additional tax of \$2,262.72 as a result of the annual report review or bingo audit.
- 6 Organizations placed on legal stipulation (probation) as result of audits, including one suspension.

In February 1999, the Audit Section commenced gross receipt audits of 12 large Class I licensed bingo operations where the bingo gross receipts were approaching the requirements of a Class II bingo license status (\$150,000 in gross receipts per annum). These reviews of bingo paper usage and projected gross receipts resulted in two tax assessments of approximately \$3,000.00 collected without protest. A pickle card presentation, including handouts and transparencies, was completed for the state conference held for representatives of all Department of Nebraska Veteran of Foreign Wars Posts.

The Investigation Division is responsible for investigative and enforcement functions involving charitable gaming activities as well as numerous other responsibilities within the Department. Investigation Division staff members are located at various locations throughout the state, and have a variety of responsibilities relative to charitable gaming activities including general investigations, inspections, and license applicant background investigations.

The Investigation Division continues to work closely with the Charitable Gaming Division on gaming related matters in an effort to keep gaming activities as well regulated and enforced as possible, and yet flexible enough to accommodate the public. As has been the case the past few years, wagering on charitable gaming activities has continued to show a decline, however, with respect to their overall responsibilities concerning gaming activities, the decline has not had a noticeable effect on the activities of the Investigation Division. The Division continues to contact licensees and conduct on-site inspections on a regular basis. The investigations conducted by the Division are both civil and criminal in nature and following completion, a large number of those investigations are forwarded to local prosecuting attorneys for potential criminal prosecution. The Investigation Division has an excellent working relationship with various law enforcement agencies and local prosecuting attorneys throughout the State.

During the reporting period, the Investigation Division conducted the following charitable gaming-related enforcement activities:

- 46 Bingo Game Inspections
- 249 Organization Inspections (Pickle Card and Lottery/Raffle)
- 2,008 Pickle Card Operator Inspections
- 23 Decal Violations on pickle card dispensing devices
- 2 Manufacturer Inspections (Bingo and Pickle Card)
- 1 Manufacturer Background Investigation
- 11 County/City Lottery Background Investigations
- 115 Keno Compliance Visitations
- 308 Investigations resulting from alleged violations and/or complaints (all gaming activities combined)
- 8 Formal Presentations to gaming licensees or potential licensees